

ECONOMIC PULSE

A MONTHLY REPORT ON MARYLAND'S ECONOMY

HIGHLIGHTS

Summary

The Federal Reserve continued to raise its short-term interest rate target at the end of June, increasing the federal funds rate from 3.0 percent to 3.25 percent—the ninth consecutive increase since Fed policymakers began raising rates a year ago. The Fed noted that, while energy prices have risen further, the economic expansion remains firm and labor market conditions continue to improve gradually. The Fed indicated that further rate increases are likely.

U.S. job growth slowed to 1.5 percent over the year, down from 1.7 percent in April. Construction and professional and business services continue to outpace other sectors with job growth rates of about 4 percent and 2.8 percent, respectively. Education and health services and leisure and hospitality are also helping support the nation's growth in employment, with gains of 2.2 percent and 2.0 percent, respectively. The unemployment rate (not seasonally adjusted) came in under 5 percent in May, down from 5.3 percent for the same period a year ago.

Maryland's job growth rate for May remained solid, rising by 2.1 percent over the year, following a 2.2 percent increase in April. Leisure and hospitality continued to lead the way with a job growth rate of roughly 6 percent. Employment in professional and business services was also strong, rising 3.6 percent from the same period a year ago.

Job Growth Remains Solid

Employment in Maryland rose 2.1 percent between May 2004 and May 2005, following a 2.2 percent gain in the previous month. Nationally, the job growth rate slowed to 1.5 percent in May, down from 1.7 percent in April.

Growth in Gross State Product Improves

Recent estimates indicate that the growth in the state's gross state product, adjusted for inflation, accelerated to about 4 percent in 2004, from 3 percent in 2003.

Federal Reserve Raises Interest Rate

The Federal Reserve raised its target short-term interest rate from 3.0 percent to 3.25 percent late in June. The Fed signaled it will probably continue to raise the target rate at a "measured" pace.

Unemployment Rate

Maryland's unemployment rate (not seasonally adjusted) stood at 4.1 percent in May, unchanged from the same period a year ago. Averaged over the first five months of this year the state's unemployment rate stood at 4.4 percent—up slightly from 4.3 percent for the same period a year ago—and remains generally lower than most neighboring jurisdictions, with the exception of Virginia (3.5 percent) and Delaware (4.2 percent).

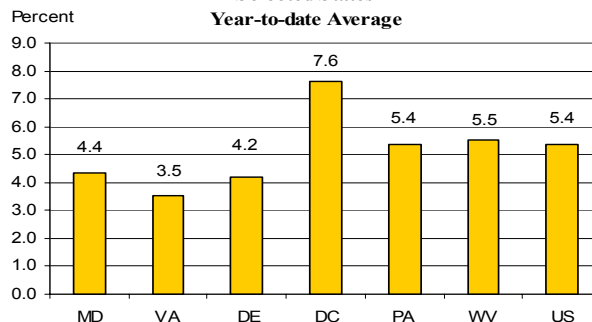
In May, the nation's unemployment rate registered 4.9 percent, down from 5.3 percent a year ago. For the first five months of this year, the U.S. unemployment rate year-to-date stood at 5.4 percent, down from 5.8 percent for the same period a year ago.

Unemployment Rates (Percent)

	Not Seasonally Adjusted		Seasonally Adjusted	
	MD	U.S.	MD	U.S.
May 2005	4.1	4.9	4.2	5.1
Apr 2005	4.1	4.9	4.3	5.2
May 2004	4.1	5.3	4.2	5.6

Source: U.S. Bureau of Labor Statistics

**Unemployment Rates (Not Seasonally Adjusted)
Selected States
Year-to-date Average**

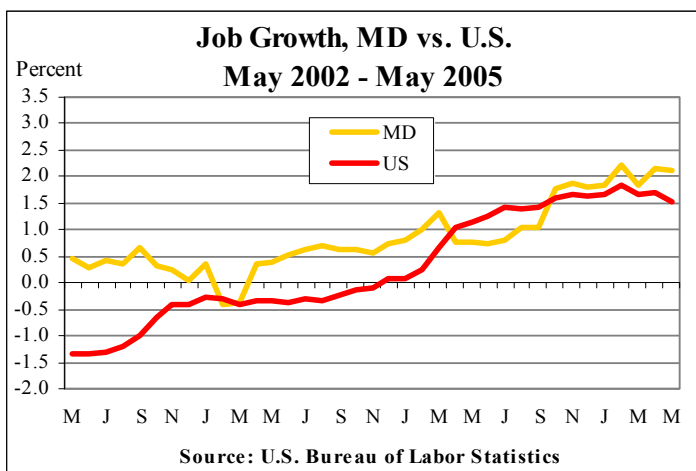


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Jobs and Sectors

Jobs

The state added 53,500 net new jobs—an increase of 2.1 percent—between May 2004 and May 2005. Job growth was led by leisure and hospitality and professional and business services. Employment in education and health services continued to support gains, as well. Taken together, these three sectors contributed roughly 37,000 net new jobs over the year. Job growth is generally broad-based, with the exception of manufacturing.



The nation's job growth rate slowed slightly, easing from 1.7 percent in the previous month to 1.5 percent in May. Construction and professional and business services continued to lead the way with job growth rates of roughly 4 percent and 3 percent, respectively. Education and health services and

Maryland vs. U.S. Job Growth Rate (Percent Change, Year Ago)

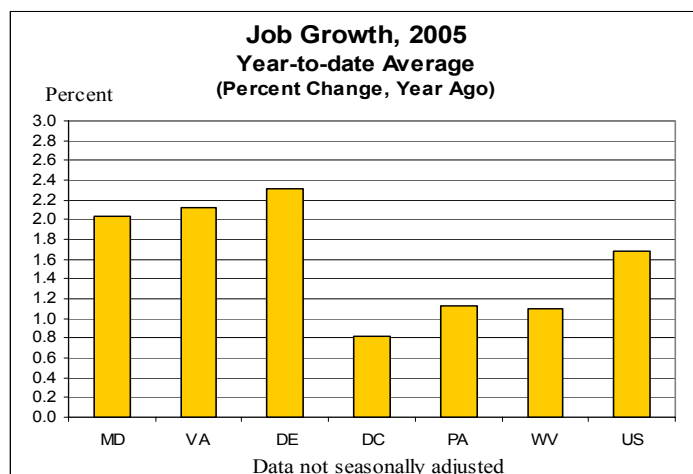
Month	MD	U.S.
May-04	0.8	1.2
Jun-04	0.7	1.3
Jul-04	0.8	1.4
Aug-04	1.0	1.4
Sep-04	1.0	1.4
Oct-04	1.8	1.6
Nov-04	1.9	1.7
Dec-04	1.8	1.6
Jan-05	1.8	1.7
Feb-05	2.2	1.8
Mar-05	1.8	1.7
Apr-05	2.2	1.7
May-05	2.1	1.5

leisure and hospitality helped to round out the sectors with the faster job growth rates in May.

Job Growth Ranking

Maryland's job growth rate of 2.1 percent in May yielded a ranking of 11th in the nation. Year-to-date the state's average job growth rate registered 2.0 percent, resulting in a ranking of 13th.

For the first five months of this year, the rankings and average job growth rates for selected jurisdictions include: Delaware, 9th (2.3 percent); Virginia, 12th (2.1 percent); Pennsylvania, 35th (1.1 percent); West Virginia, 36th (1.1 percent); and the District of Columbia, 45th (0.8 percent). Virginia's ranking has dropped as the year-over-year job growth rate has slowed below 2 percent in recent months—registering 1.4 percent in May.



The other top ten states in job growth included Nevada (6.6 percent), Arizona (4.0 percent), Oregon (3.7 percent), Utah (3.6 percent), Florida (3.2 percent), Idaho (3.0 percent), Hawaii (2.9 percent), Colorado (2.4 percent) and Washington (2.2). Nationally, the year-to-date job growth rate remained at 1.7 percent.

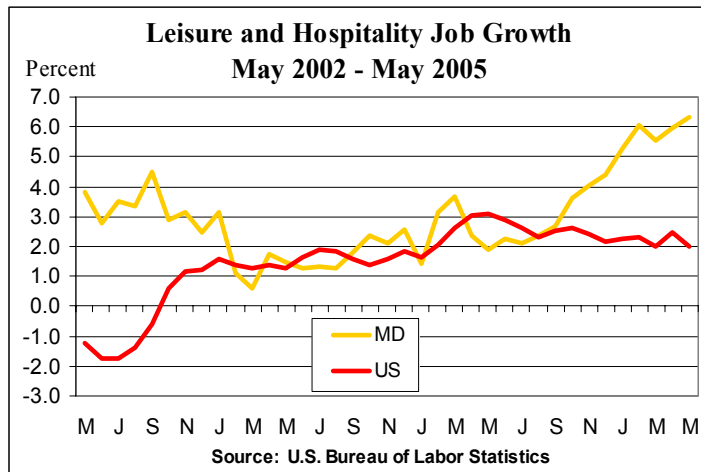
Leisure and Hospitality

In May, the leisure and hospitality sector remained the top sector in job growth in Maryland, registering an increase of 6.3 percent from the same period a year ago. The industry generated over 14,000 net new jobs. Accommodation and food services climbed 5.2 percent over the year, with an addition of 10,000 net new jobs. Food services and drinking places accounted for much of the increase, adding 9,600 new jobs—up 5.7 percent. The year-over-year growth in

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Jobs and Sectors (continued from page 2)

Maryland's leisure and hospitality sector has generally been increasing since June of last year.



With respect to other tourism-related data, the hotel occupancy rate was down about a percentage over the year and visitor volume at state welcome centers was also down slightly from the same period a year ago. Hotel sales tax receipts, however, were up 11 percent over the year.

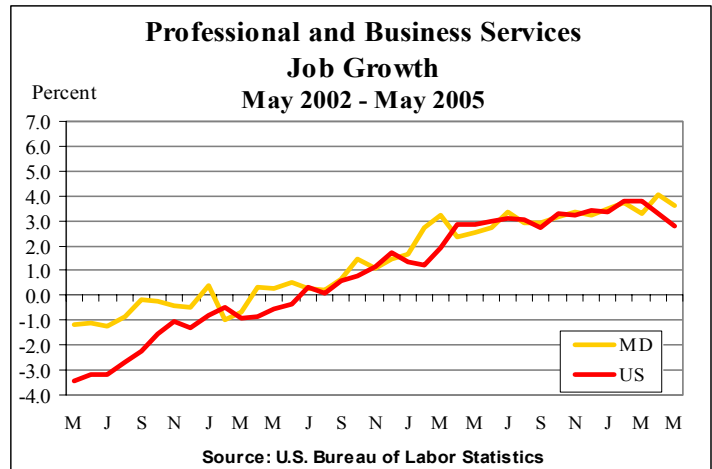
Retail Sales

The state's retail trade industry expanded by 2.2 percent between May 2004 and May 2005—an addition of 6,500 new jobs. The faster growing sectors included motor vehicle and parts dealers (up 2.1 percent), food and beverage stores (up 2.4 percent), clothing and clothing accessories stores (up 3.3 percent) and general merchandise (up 5.5 percent). Nationally, employment in the retail sector gained only 0.9 percent over the year.



Health Services

Health care (including social assistance) posted a gain of 1.7 percent in May—adding 4,700 net new jobs. Within the health care sector, health care service providers generated 2,100 jobs (up 2.3 percent) and hospitals added 2,000 jobs (up 2.2 percent). Nursing and residential care facilities showed a small job growth of 0.2 percent.



Home Sales and Building Permits

Existing home sales in Maryland were up 8.5 percent in May, compared to roughly 4 percent in April. Year-over-year sales in the nation also improved, registering a gain of 7 percent in May, up from 3 percent in April. The state's permits for new residential units rebounded in May, climbing by 19 percent between May 2004 and May 2005, after falling 9 percent in April. Nationally, building permits rose less than 2 percent in May.

Job growth in the state's construction sector remains relatively slow, with the year-over-year job growth rate registering only 1 percent in May. The nation's job growth rate in construction, however, continues to lead other major sectors, rising by 4 percent in May.

Other Industries

Employment in the professional and business services sector remains a source of strength for the state. In May, this sector posted a job growth rate of 3.6 percent—an addition of 13,500 jobs. The U.S. job growth rate for professional and business services expanded at a slower pace than the state, up 2.8 percent from the same period a year ago.

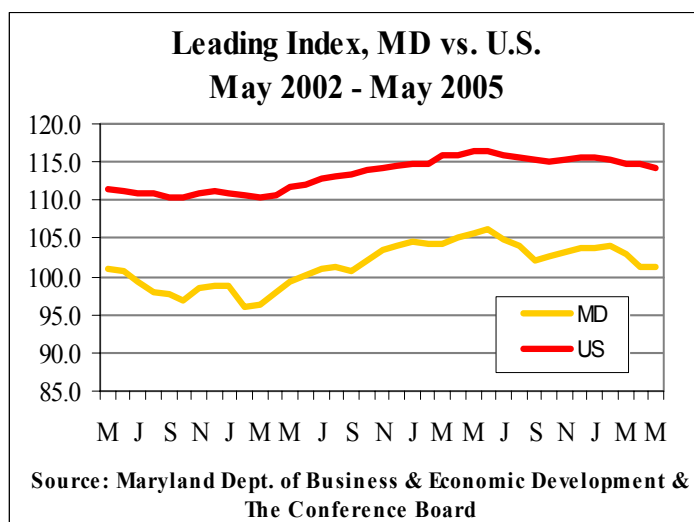
Maryland's information sector exhibited a modest job growth rate of 0.6 percent in May. Employment in the telecommuni-

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Maryland Leading and Coincident Indices

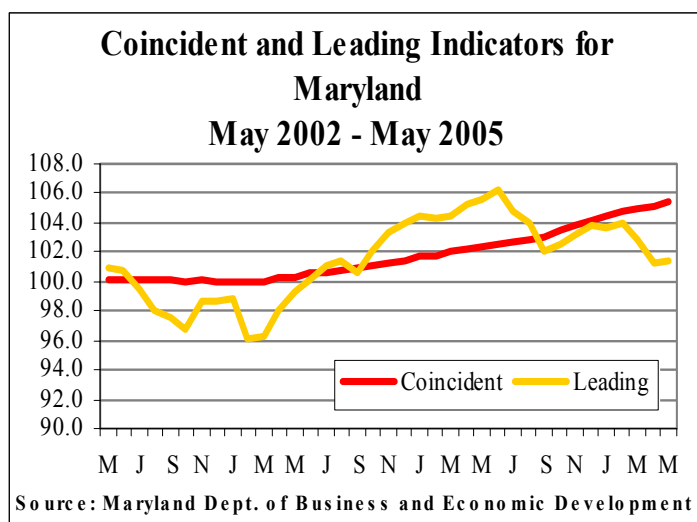
The Maryland index of leading indicators provides an outlook for the economy over the coming six to nine months. The leading index was up slightly in May—following two consecutive declines—but dropped 4 percent from the same period a year ago. Four out of the seven Maryland indicators were positive, with BWI passengers, average weekly hours in manufacturing and the stock index providing the largest positive effect. Only one of the national indicators—the consumer confidence index—generated a positive impact in May.

In May, the U.S. leading indicator was down 0.5 percent from the previous month and has not posted an increase for five consecutive months. The index was also down 2 percent over the year.



The coincident index provides a reading on current economic conditions in Maryland and is used to help track the performance of the economy. The revised coincident index stood at 105.5 in May, up 0.3 percent from the previous month and rising 3.1 percent from the same period a year ago. Seasonally adjusted employment and the present situation component of the consumer confidence index provided a positive impact on the state indicator. In addition, the seasonally adjusted unemployment rate declined from the previous month.

In May, the U.S. coincident indicator was up by 0.2 from the previous month and increased roughly 2.0 percent from the same period a year ago. The year-over-year growth in the nation's index had been slowing steadily in recent months, while the state's indicator shows signs of improvement.



Labor Force

Maryland's employment by place of residence was up 2 percent over the year and the labor force also rose by 2 percent. The year-over-year growth in the state's labor force has accelerated since the beginning of the year, up from 0.1 percent in January. Maryland's labor force growth outpaced the nation in May.

Initial claims for unemployment insurance (UI) were up about 6 percent from May 2004 to May 2005—the first over the year increase in nearly two years. Nationally, UI claims were also up roughly 4 percent from the same period a year ago. The Baltimore Sun's help-wanted counts fell 13 percent from a year ago. Temporary cash assistance (TCA) caseload declined 10 percent in May.

Labor Market Trends (Percent Change, May 2004 - May 2005)

	MD	U.S.
Civilian Labor Force	2.0	1.5
Employment by Place of Residence	2.0	2.0
Temporary Cash Assistance – Caseload	-10.1	–
Change in Initial UI Claims	5.8	3.8
Help-wanted Counts	-13.4	–
Unemployment Rate (current month, %)	4.1	4.9

Focus: Maryland's Gross State Product

The gross state product (GSP) is the counterpart to the nation's gross domestic product (GDP)—the total value of all goods and services produced in the economy in a given year. Recent estimates from the U.S. Bureau of Economic Analysis indicate that Maryland's GSP (in current dollars) amounted to \$226.5 billion in 2004, representing the 16th largest state economy in the nation and roughly 2 percent of the nation's output. The state's inflation-adjusted (real) GSP expanded by about 4 percent in 2004, up from 3 percent in the previous year.

A comparison of real GSP growth across states shows the relative performance of regional economies. Following the national recession of 2001, Maryland was among the stronger performing economies with an average annual growth rate (2002-2004) of 3.3 percent—yielding a ranking of 20th. Regionally, only Delaware and Virginia performed better than Maryland. Among the neighboring jurisdictions, the average annual growth in real GSP for the 2002 to 2004 period include: Delaware (4.1 percent), Virginia (3.5 percent), the

District of Columbia (3.1 percent), Pennsylvania (2.5 percent) and West Virginia (1.7 percent). Over that same period, the average annual growth in the nation's GDP was about 3 percent.

Maryland's performance in recent years, however, reflects the relatively steady growth in the state's economy. On a year-to-year basis, the state's real GSP growth rate has ranged from around 3 to 4 percent (2001-2004). In contrast, the nation's real GDP growth rate has gone from less than 1 percent in 2001 to over 4 percent in 2004. From 2001 to 2003, the state's economy was growing as fast, or faster, than the nation. In 2004, however, Maryland's growth lagged U.S. real GDP growth of 4.4 percent. As a result, the state's growth rate ranking has slipped over the past few years as the national economy has improved.

Jobs and Sectors (continued from page 3)

cations sector gained about 2 percent over the year, for the second consecutive month. Nationally, employment in the information sector was up 0.3 percent compared to the same period a year ago. The nation's telecommunications sector continued to decline, down 0.8 percent over the year.

Employment in other services was up 2.6 percent in Maryland between May 2004 and May 2005, while the U.S. showed an increase of 0.6 percent. The government sector exhibited a job growth rate of 1.3 percent, with over the year gains at the local level being the primary driver. The nation's government sector displayed a gain of 0.7 percent.

Manufacturing

Maryland's manufacturing sector remains weak, losing 2.3 percent of its job base in May—a loss of 3,300 jobs from the same period a year ago. The computer and electronic product sector, however, continues to contribute positively to employment with an increase of 3 percent over the year—a gain of 700 net new jobs. Nationally, employment in the manufacturing industry was down 0.3 percent from the same period a year ago.

Industry earnings and hours rose in Maryland, up 5.3 percent and 1.5 percent, respectively. Nationally, average weekly

earnings rose 1.1 percent while average weekly hours in manufacturing declined by nearly 2 percent.

Percent Change in Jobs May 2004 - May 2005

	MD	U.S.
Leisure and Hospitality	6.3	2.0
Professional and Business Services	3.6	2.8
Education and Health Services	2.7	2.2
Health Care and Social Assistance	1.7	2.2
Financial Activities	1.9	1.8
Trade, Transportation and Utilities	1.2	1.3
Retail	2.2	0.9
Construction, Mining, Natural Resources	1.0	4.1
Information	0.6	0.3
Manufacturing	-2.3	-0.3
Other Services	2.6	0.6
Government	1.3	0.7
Total	2.1	1.5

Selected Monthly Economic Indicators

Selected Indicators	Maryland					U.S.				
	May 2005	Apr 2005	Percent Change From Last Month	May 2004	Percent Change From Last Year	May 2005	Apr 2005	Percent Change From Last Month	May 2004	Percent Change From Last Year
Labor Market										
Labor Force (U.S. in Thousands)	2,934,070	2,891,440	1.5	2,875,319	2.0	148,878	148,274	0.4	146,659	1.5
Employment (U.S. in Thousands)	2,814,534	2,773,484	1.5	2,758,722	2.0	141,591	140,939	0.5	138,867	2.0
Unemployment Rate	4.1	4.1	0.0	4.1	0.0	4.9	4.9	0.0	5.3	-7.5
Sun Help-Wanted Counts, Baltimore MSA	9,577	9,702	-1.3	11,064	-13.4					
Initial Claims for Unemployment Insurance	15,035	14,937	0.7	14,205	5.8	1,251,726	1,282,093	-2.4	1,205,931	3.8
TCA Caseload	25,331	25,657	-1.3	28,166	-10.1					
TCA Cases Closed	2,787	2,978	-6.4	2,829	-1.5					
Jobs and Sectors (Jobs in Thousands)										
Total Non-Agricultural Employment	2,577.5	2,554.5	0.9	2,524.0	2.1	134,107	133,377	0.5	132,068	1.5
Construction, Mining & Natural Resources	179.6	176.7	1.6	177.9	1.0	7,907	7,687	2.9	7,596	4.1
Manufacturing	139.7	139.5	0.1	143.0	-2.3	14,296	14,250	0.3	14,343	-0.3
Trade, Transportation, Utilities	470.6	466.4	0.9	464.9	1.2	25,780	25,598	0.7	25,440	1.3
Information	51.0	50.6	0.8	50.7	0.6	3,157	3,142	0.5	3,149	0.3
Financial Activities	158.3	157.4	0.6	155.3	1.9	8,184	8,160	0.3	8,040	1.8
Professional & Business Services	387.0	385.3	0.4	373.5	3.6	16,840	16,839	0.0	16,384	2.8
Education & Health Services	355.7	355.9	-0.1	346.5	2.7	17,369	17,422	-0.3	16,994	2.2
Leisure & Hospitality	242.2	232.4	4.2	227.8	6.3	12,938	12,657	2.2	12,684	2.0
Other Services	117.4	116.6	0.7	114.4	2.6	5,485	5,470	0.3	5,451	0.6
Government	476.0	473.7	0.5	470.0	1.3	22,151	22,152	0.0	21,987	0.7
Average Weekly Earnings (\$)	684.52	653.86	4.7	650.00	5.3	666.60	662.94	0.6	659.24	1.1
Average Weekly Hours	40.6	39.7	2.3	40.0	1.5	40.4	40.3	0.2	41.1	-1.7
Business and Consumer Markets										
BWI Cargo (Metric Tons)	20,279	20,866	-2.8	19,951	1.6					
BWI Passengers (Millions)	1.75	1.60	9.0	1.87	-6.7					
Electric Meters Installed, Commercial ¹	161	156	3.2	204	-21.1					
Electric Meters Installed, Residential ¹	772	696	10.9	1,078	-28.4					
Electricity Sales, Commercial (Millions of MWh) ¹	1.58	1.45	8.8	1.50	5.0					
Electricity Sales, Residential (Millions of MWh) ¹	1.20	1.16	3.6	1.06	13.5					
Existing Home Sales (U.S. in Thousands)	9,459	8,377	12.9	8,714	8.5	668	626	6.7	624	7.1
New Auto Registration (U.S. seasonally adjusted)	36,191	36,609	-1.1	37,819	-4.3	N/A	1,323,550	N/A	1,474,483	N/A
New Residential Permits Authorized	2,901	2,785	4.2	2,436	19.1	189,883	192,245	-1.2	186,956	1.6
Indexes										
Leading Index	101.3	101.2	0.1	105.6	-4.0	114.1	114.7	-0.5	116.4	-2.0
Help-Wanted Index	42.7	43.3	-1.3	49.4	-13.4	37	39	-5.1	39	-5.1
CPI	123.6	N/A	N/A	118.9	4.0	194.4	194.6	-0.1	189.1	2.8
Stock Index	303.7	289.5	4.9	268.9	13.0	1,191.5	1,156.9	3.0	1,120.6	6.3
Tourism										
Hotel /Motel Occupancy Rate (%)	71.2	70.9	0.4	72.5	-1.8					
State Welcome Center Visitors	223,464	189,166	18.1	224,286	-0.4					
Amusement & Admission Tax (Millions of Dollars)	N/A	N/A	N/A	4.53	N/A					
Hotel /Motel Sales Tax (Millions of Dollars)	4.49	4.46	0.6	4.03	11.4					

Notes:

¹BGE data as of March 2005.



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